

The Effect of Financial Performance and Reinsurance on The Deficit in The Balance of Payments of Insurance in Indonesia

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Abstract

Insurance regulation in Indonesia is important to be implemented because the balance of payments for insurance services is in deficit. The insurance industry in Indonesia does not have sufficient capacity to absorb all potential risks exist in the country so that it partners with foreign assurers which then has an impact on the balance of payments deficit. If not addressed immediately, it will harm the country's economy so prosperity will be difficult to achieve. This study aims to see the effect of financial performance and reinsurance on the insurance balance of payments deficit in Indonesia. The method used in this study was quantitative using secondary data in the form of time-series data obtained from the Financial Services Authority. Data collection uses documentation in the form of quarterly data starting from 2010Q1-2019Q4. The total sample was 40 samples. The collected data was then analyzed using multiple-linear regression. The results of this study indicate that financial performance and reinsurance have a significant effect simultaneously and partially on the deficit in the insurance balance of payments in Indonesia. The coefficient of determination of 0.507 or 50.7%, means that the ability of independent variables; financial performance and reinsurance in explaining the deficit in insurance balance of payments in Indonesia for the 2010-2019 period was 50.7% and 49.3% was influenced by other variables that were not studied.

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INTRODUCTION

Regulations related to insurance in Indonesia have undergone developments, ranging from the Financial Services Authority Regulation No.14 / POJK.05 / 2015 to the latest changes as stated in the Financial Services Authority Regulation No.39 / POJK.05 / 2020 concerning self-retention and domestic reinsurance support, whereas the regulation as a response for insurance practices referring to previous regulations. In other words, improvements are needed that are expected to make a maximum contribution to regulating insurance in Indonesia (Suryanto et al., 2020). However, the development of Indonesian insurance has not provided maximum results, based on data from the Indonesian Insurance Statistics published by the Financial Services Authority (OJK) the balance of payments for insurance services is still experiencing a deficit. This condition shows that the insurance industry in Indonesia does not have sufficient capacity to absorb the potential for risk management that exists in the country, therefore it still partnering with foreign assurers which has an impact on the balance of payments deficit (Yi et al., 2021).

When using a domestic assurer, the impact of the deficit can be minimized because the risks received will be managed together by the distribution of risk-portion in the guarantee services management of domestic companies, as concluded by Zhu et.al in his research related to reinsurance which states that the deficit risk will be well managed when the relevant parties do not involve foreigners in their management (Zhu et al., 2019). When the assurer still using foreign parties, then the need for reinsurance will depend on the foreign assurer party which at any time can bring a negative impact on the domestic balance of payments (Otoritas Jasa Keuangan (OJK), 2019).

Table 1 Indonesia Insurance Balance of Payments Deficit 2010-2019

Year	Insurance Balance of Payments Deficit	Deficit Balance Sheet Ratio To and from Abroad
2010	4,71 Trillion	18,5%
2011	6,49 Trillion	16,7%
2012	4,99 Trillion	10,6%
2013	8,19 Trillion	13,7%
2014	6,66 Trillion	12,2%
2015	7,21 Trillion	12,0%
2016	7,03 Trillion	10,5%
2017	6,72 Trillion	9,5%
2018	7,48 Trillion	9,66%
2019	9,28 Trillion	10,58%

Source: Financial Services Authority, 2019

Based on the insurance balance of payments data Table 1 published by the OJK during the period of ten years from 2010 to 2019, Indonesia experienced an increased balance of payments deficit significantly. The difference between 2010 and 2019 was 4.57 trillion rupiahs (Otoritas Jasa Keuangan (OJK), 2019). This was due to the tendency of an increase in reinsurance premiums paid abroad which increased significantly from 15.35 trillion in 2015 to 18.29 trillion rupiah in 2019. This figure is a minor gain when compared to the receipt of commissions and foreign insurance claims which only reached the range of 2 trillion and 5 trillion rupiahs. On the other hand, reinsurance transactions from abroad although showing a surplus, still have not shown a high increase and have not been able to cover the number of premiums paid abroad, which on average for ten years only reached 1.54 trillion rupiahs.

It shows that the ability of the insurance industry in Indonesia is still weak in absorbing domestic insurance risks and still relies on the role of foreign insurance partners (Venezian et al., 2005). Reinsurance regulations are also important and become variables in influencing the insurance balance of payments deficit. Since insurance companies partner with foreign assurers and the amount of premiums paid abroad exceeds the commissions and claims received from abroad thus causing a balance of payments deficit (Otoritas Jasa Keuangan (OJK), 2019). When the assurer used as a partner is still from a foreign country, it will bring a negative impact on the company's performance. On the contrary, it will have a positive impact on the probability of the company if the assurer

partner is in one region or country to avoid the circulation of payments abroad which involves foreign exchange rates (Park et al., 2021).

Table 2 Underwriting Results (Millions of Rupiah) and Insurance Assets (Trillion Rupiah) In 2010-2019

Year	Underwriting Results	Underwriting Yield Growth	Total Assets	Total Asset Growth
2010	203123	22,28%	2,37	16,75%
2011	245813	21,02%	3,21	35,44%
2012	311699	26,80%	4,69	46,11%
2013	282780	-9,28%	6,45	37,53%
2014	572566	102,48%	10,29	59,53%
2015	909712	58,89%	14,81	43,93%
2016	1236882	35,96%	16,62	12,12%
2017	1413296	14,26%	20,13	21,12%
2018	913111	-35,39%	23,47	16,59%
2019	114358		27,26	16,15%

Source: Financial Services Authority, 2019

From the Indonesian Insurance Statistics data above, there has been an annual increase in reinsurance company assets in Indonesia for the last ten years. In 2010 total assets were 2,37 trillion increased to 27,26 trillion in 2019, which shows that the funds accommodated in the insurance company sector increased significantly.

Reinsurance partnering with foreign assurers is an obstacle due to the inability of the insurance industry in terms of absorbing risk management, so it requires its retention to build trust and build domestic reinsurers that can compete with foreign assurers. Then the existing reinsurance partnerships no longer involve foreign assurers and finally can reduce the deficit in the balance of payments, since financial circulation revolves only domestically without involving foreign parties (Otoritas Jasa Keuangan, 2019).

Increasingly competitive in the insurance business requires companies to continuously improve their performance, because one of the crucial factors for assessing a company's management can be seen in its performance. According to Saad and Idris, we can evaluate a company's performance by its efficiency value, since efficiency in reinsurance has important implications for assurer in increasing competitiveness and more over the stability of financial institutions and the monetary system (Ardianto & Sukmaningrum, 2020). In line with Ahmed, the company's performance not only plays a role in increasing the company's market value but instead leads to the economic growth of all sectors and finally increases economic prosperity (Nurlatifah & Mardian, 2016). To support the insurance industry to have high brand awareness and loyalty from the public, insurance companies must have good performance in absorbing domestic-risk management, so that they do not shift to foreign parties. Thus, good management which can be identified by the good performance of insurance companies is needed, so that the premium-paid does not leave the country (Otoritas Jasa Keuangan, 2019). Improving the company's performance and efficiency will become a strength for international expansion, so the output will be no longer at the deficit level but will restore the surplus position of the balance of payments (François Outreville, 2012).

If this deficit is not immediately controlled, the economic cycle will also be disrupted, whereas foreign companies in the insurance sector will increasingly dominate the domestic insurance industry and Indonesian companies themselves will be further eliminated. The disadvantage obtained from the effect of this deficit is that the benefits obtained are not proportional to the amount of finance paid to foreign parties. In Astuti's research, the impact of Indonesia's deficit on the balance of payments will worsen the country's economy so welfare will be difficult to achieve (Astuti, 2017).

LITERATURE

Balance of Payments

A balance of payments is a record of financial flows that shows the value of trade transactions and fund flows carried out between a country and another country within a certain time, usually one year (Sukirno, 2008). Hady defines the balance of payment (BOP) as a systematic compilation of all economic transactions that include

trade in goods or services, financial and monetary transfers between residents of a country and residents abroad for a certain period, usually one year (Hady, 2009).

The current account balance explains whether the combination of the private sector and government claims rises against foreign assets and vice versa (Apridar, 2012). In reality, foreign trade in a balanced country is extremely rare. The difference between exports and imports of goods and services is recorded on a balance sheet called the current account with the symbol CA. Mathematically CA is (Krugman, 2005):

$$CA = EX - IM$$

If a country's imports exceed its exports, the country experiences a current account deficit. Contrary, a country that has a current account surplus, if its exports are greater than its imports.

Financial Performance with Underwriting Ratio

According to Fahmi, financial performance is an analysis carried out to see the extent to which a company has implemented financial rules properly and correctly (Fahmi, 2011). In this study, the company's financial performance was measured by the underwriting ratio. If the insurance company does not take the risk of excessive underwriting; which can affect the stability of the company through high costs; and maintain risk acceptance so that the stability of the company is maintained, the financial performance of the insurance company will be better (Stephanie & Ruslim, 2021). To obtain the underwriting ratio we can use the following formula:

$$\text{Underwriting Ratio} = \frac{\text{Underwriting Results}}{\text{Premium Income}}$$

Reinsurance with Total Assets

Reinsurance can be defined as an insurance company that receives reinsurance from the insurance company for part or all of the risks that have been or cannot be covered by the insurance company. The reinsurance company accepts risk transfer from an insurance company that directly covers certain risks whereas the value of coverage has exceeded its ability to accept the risk (Kuncoro, 2014).

Company size is a grouping of a company by looking at the scale owned by the company itself, for example, the size of a company with a large, medium, and small scale. This scale is used as an overview of the size of the company based on measuring the total assets of the company (Yan & Nettayanun, 2019). Large companies can take advantage of economies of scale and scope. Large insurers have a greater capacity to handle markets. Large amounts of fixed assets will improve financial performance. Having a large number of fixed assets will be more profitable for the insurance company compared to the fewer assets (Nurlatifah & Mardian, 2016). Therefore, the indicators used to measure the reinsurance variables can be formulated as follows:

$$\text{Company Size} = \text{Total Assets}$$

METHODS

This research was a quantitative approach using secondary data. The sampling method used was saturated samples, where population members used as samples were five reinsurance companies in Indonesia during the period 2010 to 2019. The test tool used is regression analysis to compare two different variables. To obtain a reliable regression model, some classical assumption tests were needed.

Normality Test

The normality test aims to determine the distribution of data in variables that will be used in research and should be carried out before the data is processed based on research models. A good regression is a regression that has normally distributed data. A normality test needs to be performed to see the data of each variable to be analyzed in a normal distribution. The normality test in this study used the Kolmogorov-Smirnov test (Noor, 2014).

Multicollinearity Test

The multicollinearity test is intended to determine whether there is a correlation between independent variables in the regression model. If there is a correlation between independent variables, then there is a

multicollinearity problem in the model. Multicollinearity in multiple regression models can be detected by looking at the VIF (Variance Inflation Factor) value from the results of regression analysis. If the $VIF > 10$ then it can be said that there is serious multicollinearity (Ghozali, 2012).

Multiple Regression Analysis

The data analysis used is multiple regression. This analysis is used to determine how dependent variables can be predicted through independent variables or predictors, partially or simultaneously.

RESULTS AND DISCUSSION

Normality Test

The normality test is used to see whether the data is normally distributed or not. Therefore, the existing data must be tested to meet the normality requirements, the test tool used is the Kolmogorov-Smirnov test. The data is declared normally distributed if the significance value is greater than 0.05. The results of the normality assumption analysis with Kolmogorov-Smirnov on the residual value of the regression equation are presented in the following table:

Table 3 Normality Test One-Sample Kolmogorov-Smirnov Test		
Unstandardized Residual		
N		40
Normal Parameters,b	Mean	,0000000
	Std. Deviation	,06399746
Most Extreme Differences	Absolute	,113
	Positive	,107
	Negative	-,113
Kolmogorov-Smirnov Z		,712
Asymp. Sig. (2-tailed)		,692

a. Test distribution is Normal.
b. Calculated from data.

Based on the results of the normality test using the Kolmogorov-Smirnov method, it shows that the residual value of the independent variable and dependent variable at the number of samples (N) of 40 is 0.549. Thus, the data from this study are normally distributed because the residual value is greater than the significance of 0.05 or $0.692 > 0.05$ so that regression models can be used for hypothesis testing.

Multicollinearity Test

The multicollinearity test was carried out to see whether there was interference with the data, whereas multicollinearity occurs if there was a correlation between independent variables. Thus this test is carried out so that the existing data must be free from multicollinearity. This test is carried out by looking at the VIF (Variance Inflation Factor) value with the condition that it must be below 10, this is explained as follows:

Table 4 Multicollinearity Test Results		
Type	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
LOGX1	.955	1.048
LOGX2	.955	1.048

Based on the results above, it shows that all VIF values in the financial performance variable are less than 10 ($1,048 < 10$), and the VIF value for reinsurance is less than the number 10 ($1,048 < 10$), while the tolerance

value for the financial performance variable exceeds 0.1 ($0.955 > 0.1$) and the tolerance value in the reinsurance variable exceeds the value of 0.1 ($1.048 > 0.1$). Therefore, it can be concluded that in this regression model, there is no symptom of multicollinearity.

Multiple Linear Regression Analysis

Data analysis in this study is multiple regression analysis. The definition of regression analysis itself is the study of the dependence of dependent variables on one or more independent variables. The aim is to see the influence between financial performance and reinsurance on the deficit on the insurance's balance of payments.

Table 5 Multiple Linear Regression Test Results
Coefficients^a

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	11,274	,193		58,363	,000
1 X1	-,050	,020	-,291	-2,529	,016
X2	,189	,030	,734	6,380	,000

a. Dependent Variable: Y

The equation for the multiple regression is as follows:

$$Y_t = 11,274 - 0,050X_1 + 0,189X_2 + e_t$$

Simultan Significance Test (F Test)

F test is used to see if the entire independent variable affects the dependent variable. To find out the significant influence of independent variables on the dependent variable. The following are the results of the F test using a probability of 5% (0.05) can be seen in the table 6:

Table 6 F Test Results
ANOVA^a

Type	Sum of Squares	df	Mean Square	F	Sig.
Regression	,182	2	,091	21,069	,000 ^b
1 Residual	,160	37	,004		
Total	,342	39			

a. Dependent Variable: Y

b. Predictors: (Constant), X2, X1

Based on the results of the simultan test (F), it shows F_{count} value 21,069 while F_{table} 3,252. It means that the F_{count} is greater than F_{table} ($21,069 > 3,252$). It can be concluded that the variables of financial performance and reinsurance have a simultaneous effect on the deficit of insurance's balance of payments.

Individual Parameter Significance Test (Statistical Test T)

The t-test shows the extent of each independent variable influences the dependent variable. This test t was conducted as a significance test of the effect of each independent variable on the dependent variables with $\alpha = 5\%$. H_0 is rejected, if $T_{\text{count}} > T_{\text{table}}$. The results of the t-test are described in the following table:

Table 7t-Test Results

Coefficients ^a					
Type	Unstandardized Coefficients		Standardized Coefficients		t
	B	Std. Error	Beta		
(Constant)	11,274	,193			58,363,000
1 X1	-,050	,020	-,291		-2,529,016
X2	,189	,030	,734		6,380 ,000

a. Dependent Variable: Y

Based on the table 7, the results of the T-test can be described as follows:

- 1. Financial Performance:** The test results for financial performance variables on the deficit of Indonesia's insurance balance of payments show that it has a significant effect with a significance value of 0.016. So it can be concluded that H_0 was rejected and H_a was accepted. In other words, Financial Performance (X1) affected the deficit of Indonesia's insurance balance of payments (Y). The regression coefficient is -0.050, which means that for every 1% increase in financial performance, the deficit in Indonesia's insurance balance of payments will decrease by 0.050%.
- 2. Reinsurance:** The test results for the reinsurance variable to the deficit of Indonesia's insurance balance of payments have a significant effect value of 0.000. It can be concluded that H_0 was rejected and H_a was accepted so Reinsurance (X2) affected the deficit of Indonesia's insurance balance of payments (Y). The regression coefficient is 0.189 means every 1% increase in the total asset value, the deficit in Indonesia's insurance balance of payments will increase by 0.189%.

Coefficient of Determination Test

The coefficient of determination is used to see the extent of a model's ability to explain independent variables. The coefficient of determination ranges from 0 to 1. A value close to 1 means that the independent variable provides almost all the information needed to predict the variance of the dependent variable. A small value means that the independent ability is very limited in explaining the variant of dependent variables. The weakness of this model is the bias towards the number of independent variables included in the model. This study utilizes the value of Adjusted (R^2) to evaluate which regression model is the best one. The determinant coefficient explains how much the proportion of the dependent variable variance can be explained by the variation of the independent variables. The test results are described in the table 8:

Table 8 Coefficient of Determination Test Results

Model Summary ^b				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,730 ^a	,532	,507	,06570

a. Predictors: (Constant), X2, X1

b. Dependent Variable: Y

Based on the table 8, it can be seen that the adjusted R square (R^2) value is 0.507 or 50.7%. It illustrates that the ability of independent variables namely financial performance and reinsurance variables, in explaining dependent variables the deficit in Indonesia's insurance balance of payments for the 2010-2019 period was 50.7%; the remaining 49.3% was influenced by other variables outside the model that was not the scope in this study.

The Effect of Financial Performance on the Insurance Balance of Payments Deficit in Indonesia

Based on the results of the partial test, shows that the probability significance value is $0.016 < 0.05$. Therefore, H_1 is accepted which means that financial performance variables affect the deficit of insurance balance

of payments deficit in Indonesia. This influence is negative, whereas when there is an increase in the financial performance of reinsurance, it will reduce the deficit in Indonesia's insurance balance of payments. Vice versa, when the financial performance of Indonesia's reinsurance decreases, it will increase Indonesia's insurance balance of payments deficit.

Financial performance that influences Indonesia's insurance balance of payments deficit occurs because Indonesia's reinsurer still uses foreign assurer partners so financial performance cannot be managed properly. These results support a previous study conducted by Jin Park et. al which said that reinsurance regulations will harm company performance when the insurance partner used is still overseas and will have a positive impact on the probability of reinsurance companies when the assurer comes from one region or country to avoid circulating payments to foreign countries because it involves foreign exchange rates (Park et al., 2021). Thus, based on the previous research, it indicates that the financial performance of reinsurance in Indonesia can be said to be low because it still relies on foreign roles in its management, this is due to the inability of the reinsurance industry to absorb and compete with foreign reinsurers.

The increasing deficit in the insurance balance of payments in Indonesia indicates that reinsurance companies have not managed their financial performance well. Especially in 2019, the deficit in the insurance balance of payments in Indonesia reached 9.28 trillion rupiahs. It shows that reinsurance companies cannot manage or control their resources, so they have not been able to make improvements. Such a situation may also affect the decline in its operational growth in competition and may increase the value of the deficit in insurance balance of payments. This means that the existence of reinsurance companies in Indonesia has not performed well since the deficit continues to increase. This happens because the company is not able to manage its finances properly so they make many payments abroad. Thus, reinsurance companies in Indonesia need to improve their financial performance to reduce the deficit in the balance of payments.

Moreover, the trend of reinsurance premiums paid abroad increased significantly from 15.35 trillion rupiahs to 18.29 trillion over the last five years. Meanwhile, on the other hand, commission receipts from foreign insurance claims only reach 2-5 trillion rupiah. This situation has shown that reinsurance transactions from abroad are surplus, but have not been able to cover the number of premiums paid abroad, which average 1.54 trillion rupiahs during the research period. It indicates that the ability of insurance in Indonesia is low in absorbing insurance risks in the country still relies on the role of foreign partners, one of which is due to poor financial performance.

This research has proven that if reinsurance companies can improve their financial performance, they will be able to reduce the balance of payments deficit. This situation will directly avoid the capital outflows and also prevent excessive payments abroad because if domestic reinsurance can suppress payments abroad, it will directly reduce the balance of payments deficit. It is following the opinion expressed by the Financial Services Authority which states that good performance will support and attract policies in absorbing domestic risks so that the premiums paid do not come out of the country, which will ultimately reduce the deficit of payments abroad (Otoritas Jasa Keuangan (OJK), 2019).

Based on research by Saad and Idris, it resulted in that performance has important implications for insurance operators in increasing competitiveness. Even for policymakers and insurance regulators, performance can also have implications for improving the stability of financial institutions and increasing the effectiveness of the whole monetary system (Ardianto & Sukmaningrum, 2020). This means that an increase in financial performance will increase the competitiveness of reinsurance companies which will affect the effectiveness of the monetary system. Hence, if a company's financial performance is said to be good, it will have an impact on industrial growth in all sectors which will ultimately lead to overall economic prosperity. This is as mentioned in Ahmed's research which states that a company's performance not only plays an important role in increasing the market value of a particular company but instead leads to the industrial growth of the entire sector, which will lead to the whole economic prosperity (Nurlatifah & Mardian, 2016).

Financial performance is an important part that must be considered by the companies because financial performance is a result of financial position including capital adequacy, liquidity, and profitability which can reduce the balance of payments deficit in reinsurance in Indonesia. If the financial performance increases, it will have an impact on the company's achievements in obtaining profits, maintaining the stability of the capital structure, and maintaining the liquidity of the reinsurance company so that the company's finances can be

managed properly. This situation is due to the increased financial performance will be a parameter and measure of the company's success in earning profits, thereby reducing payments abroad.

The problem of balance of payments deficit in the insurance industry in Indonesia has long existed, even the Government of Indonesia through the Financial Services Authority has issued regulations to specifically regulate reinsurance. This regulation is implemented by the government to reduce the insurance balance of payments deficit. However, regulatory improvement alone has not been able to overcome the balance of payments deficit. To reduce the deficit, a company must be able to improve its financial performance by managing or controlling the resources owned by the reinsurance company so that it will support the company's operational growth in competing and minimizing premiums that must be paid abroad.

Effect of Reinsurance on Indonesia's Balance of Payments Deficit

Based on the partial test result, the reinsurance variable has a significant effect on the insurance balance of payments deficit in Indonesia during 2010-2019, it showed that the probability significance value was $0.000 < 0.05$. So H2 is accepted, meaning that the reinsurance variable affects the deficit in the insurance balance of payments deficit in Indonesia.

This supports the opinion of Ai Fitri Nurlatifah in her research which states that large amounts of fixed assets will benefit insurance companies more than ownership of fewer assets (Nurlatifah & Mardian, 2016). Thus, it can be said that the insurance balance of payments deficit continues to increase because the assets owned by reinsurers in Indonesia are still relatively small. The existence of large assets will be able to absorb a lot of market potential and increase public confidence in using Indonesian reinsurance services which will finally reduce the balance of payments deficit.

This is also in line with research conducted by Emilio et. which states that the ability of domestic assurers low in absorbing domestic insurance risks and still relies on the role of foreign insurance partners (Venezian et al., 2005). This condition shows that the total assets owned by reinsurers in Indonesia are still low so the ability to compete in absorbing domestic risks is still not possible.

A study conducted by Zubaidah Nasution stated that the greater the assets owned by the company are expected that the operating results will be greater because it is accompanied by the increased trust from external parties of the company (Nasution, 2019). So the greater the assets of the reinsurance company, the better the operating system will be, due to the increased trust from external parties of reinsurance company because assets in reinsurance company in Indonesia are referred to as assets owned by the company which can be used for the sustainability of the company's operational activities.

Research conducted shows that the company's total assets insurance companies in Indonesia affect the balance of payments deficit. So it can be said that reinsurance companies that have larger total assets will be able to reduce the balance of payments deficit. This can happen because reinsurance companies with greater resource capabilities have increased the company business performance. The increased performance of the reinsurance business will have an impact on reducing the balance of payments deficit.

If the reinsurance company has large total assets, it will increase the company's development and will provide positive feedback for investors. This is to research conducted by Dewa Ayu Gede Martha which states that companies that have high asset growth will give a sign for the company's development and provide a positive outlook for investors (Dewi & Sudiartha, 2017). That is, if the total assets of Islamic reinsurance companies continue to increase, it indicates that the development of reinsurance companies continues to develop and investors do not hesitate in providing their funds to invest in reinsurance companies.

In addition, if the total assets owned by the reinsurance are large, it will improve its financial performance, this is to research conducted by Mehari and Aemiro which states that large amounts of fixed assets will improve financial performance. Sharia reinsurance companies that have large amounts of fixed assets will benefit sharia reinsurance companies more than sharia reinsurance companies with fewer asset ownership (Mehari & Aemiro, 2013). Thus it can be said that the fixed assets owned by a large reinsurance company will have an impact on reducing the balance of payments deficit.

Based on the results of research on the total assets of reinsurance companies in Indonesia, it has not been able to reduce the deficit in other words, the assets of Indonesian reinsurers are low. Meanwhile, on the one hand, if a reinsurance company has more large assets, the company can enjoy its economy with a high level of profit and not experience an increase in the balance of payments deficit. This indicates that reinsurance companies

having low total assets will have an impact on not being able to absorb the capacity of market uncertainty and companies are also unable to predict the state of insurance in the global market. In addition, the growth of Sharia reinsurance companies is also still relatively small so it is not better at managing economies of scale in business transactions. one of them in terms of labor costs and lower profit rates. As research conducted by Faiqotul Nur AssyifahAinul, Jeni Susyanti, and Ronny MalviaMardani states that large companies have a greater ability to recruit employees with professional skills and knowledge than small companies(Ainul et al., 2016). This means that companies in Sharia reinsurance have not been able to recruit enough employees with professional skills and knowledge to help reduce the balance of payments deficit.

Research conducted shows that the company's total assets are still relatively low, thereby increasing the balance of payments deficit. The company's low total assets are also influenced by reinsurance companies in Indonesia which are still relatively small so this reinsurance company buys a lot of reinsurance abroad. The situation in this study illustrates that reinsurance companies with small total assets buy more reinsurance abroad. If there are unexpected losses then the company will suffer big losses. The research of Yayun Yan and Sampan Nettayanun states that insurance companies that are dependent on reinsurance tend to be vulnerable to the level of solvency or the company's ability to fulfill all its obligations. Thus, it can be said that a large number of fixed assets will benefit the company more than a small number of assets to reduce the balance of payments deficit(Yan & Nettayanun, 2019). However, reinsurance in Indonesia still depends on reinsurance abroad so total assets are still categorized as small.

CONCLUSION

This study concludes that financial performance and reinsurance have simultaneously and partially affected the deficit of insurance balance of payments in Indonesia. The financial performance of reinsurance in Indonesia has not been good enough and the total reinsurance assets are still considered low to help reduce the balance of payments deficit. Both variables in the study can lead to an increase in the insurance balance of payments deficit in Indonesia if it is not corrected in the future. Such a situation can also affect the macro economy in Indonesia so that it is not only government regulations but companies must also be able to carry out management related to the risks that cause the deficit to continue to occur.

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